

Week Ahead

Focus: US Fed, EZ and AT Inflation and GDP forecasts

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US Fed to raise interest rates

Next week, the FOMC, the US Federal Reserve's monetary policy-making body, is to meet. A 0.25% rate hike seems all but certain. A big rate hike of 0.5% has become very unlikely, due to the outbreak of war in Ukraine. The FOMC should thus meet market expectations and not trigger a market reaction. However, the meeting does hold potential beyond that. A new survey of meeting participants will be published. It will ask about expectations for the further development of the most important macro variables. This will show how the consequences of the war for the US economy, and thus for the development of interest rates, are assessed. This will be difficult in this environment and thus has surprise potential.

Energy prices had already risen further since December, the time of the last survey, and have risen again since the outbreak of war. Immediately, this means a stronger increase in the already very high inflation, but also a burden on the economy. The average price of a gallon of fuel has exceeded USD 4 in the US, which was last the case in 2008, even though this price weighed more heavily on consumers then. This is because incomes were lower. But even now this oil price means risks for the economy. US workers have already had to accept real income losses since last autumn due to high inflation. This development will now worsen for the time being.

At the same time, the labor market continues to perform very well. Data for February showed a strong increase in employment. The unemployment rate is stable at a low level. Wage growth has slowed, but there are often erratic movements here, so it is too early to draw conclusions.

In addition to the forecasts of the meeting participants, the FOMC's Statement and Fed Chairman Powell's press conference will be decisive for the markets. We expect the FOMC to take a cautious approach, due to the uncertain environment. Decisions on interest rates should be taken meeting by meeting. The new buzzword in this context is likely to be 'nimble', which has already been used a few times by Powell. A series of rate hikes is unlikely to be contradicted. In sum, however, the FOMC's statements could cast doubt on the six rate hikes (0.25% each) currently expected by the market this year.

The FOMC meeting will probably also provide further information on how the 'roll-off', the reduction of the central bank's securities portfolio, is to proceed. At the meeting in January, Powell had announced that it would take more than one further meeting before a decision was reached. We therefore expect the final announcement of the roll-off procedure at the May meeting and the implementation to start in July.

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Note: Past performance is not necessarily indicative of future results

EZ - Inflation forecast raised and GDP forecast lowered

Risks to the inflation and economic outlook have risen sharply as a result of the war in Ukraine and the far-reaching economic sanctions it has triggered. Following an initial evaluation of the situation, we have raised our inflation forecast for 2022 significantly to 5.7% (previously 4.2%). In 2023, we expect a decline to 2.2% (previously 2.0%). As a result of the war, global prices for energy and food have risen significantly. We therefore expect this to have an equally significant impact on energy and food inflation in the Eurozone as early as March. In addition, we expect the war and sanctions to unfortunately increase supply chain problems again. Due to supply problems, we also expect stronger price increases for various consumer goods in the coming months.

Currently, we expect diplomatic efforts by both warring parties to intensify in the coming weeks. This should contribute to a gradual easing of the situation on the energy and commodity markets. Against this background, we expect inflation rates to fall slightly in the second half of the year.

Due to the significant rise in raw material prices and the expected intensification of supply chain problems, we have lowered our 2022 GDP forecast to 3.8% (previously 4.4%). We expect the sharp rise in commodity prices to have a dampening effect on consumption. Industrial production is also expected to be negatively impacted by increased raw material prices as well as supply chain problems. However, we do not currently expect the sanctions to lead to a complete disruption of Russian gas supplies to Europe.

By contrast, the economy should benefit more than average from the recovery of the services sector following the end of restrictive measures in many European countries. In addition, we expect the rise in energy prices to boost investment in renewables and measures to improve energy efficiency. Furthermore, growth in southern Europe in particular will benefit significantly from the substantial funding provided under the EU's 2022 reconstruction plan.

AT - War in Ukraine dampens recovery and fuels inflation

The war in Ukraine and resulting unprecedented political and economic sanctions against Russia will drive up prices and dampen the economic recovery in Austria. Energy prices have registered another significant increase since the outbreak of the war. Food prices are also expected to rise further, as the war is likely to lead to reduced production of certain foods, e.g. wheat and vegetable oils. In addition, there will be problems in supply chains, which in turn will drive up prices for production and consumer goods. This will curb private consumption, which was expected to be the strong driver of economic recovery this year. The high raw material and energy prices, as well as problems in supply chains, will also have a negative impact on industrial production and thus slow down investment development. On the positive side, tourism and the services sector as a whole should benefit from the easing of COVID-19 restrictions and support economic growth.

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11. March 2022

Against this backdrop, we have revised down our Austrian GDP forecast for 2022 from +4.3% to +3.5%, while raising our inflation forecast from +3.9% to +5.5%. The situation remains characterized by high uncertainty, with economic risks tilted to the downside. In our forecast, we assume that there will be no additional significant escalation of the conflict and no disruption to Russian gas supplies.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
USA						
	16-Mar	13:30	Retail Sales mom	Feb	0.5%	3.8%
China						

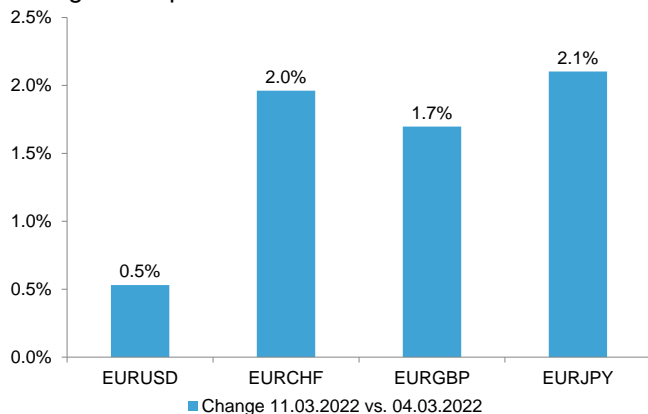
Central bank events

	Date	Time	Event
ECB	17-Mar	10:30	Christine Lagarde, speech, The ECB and Its Watchers conference
		11:15	Philip Lane, debate: Monetary Policy: From the Pandemic Crisis to New Challenges, The ECB and Its Watchers conference
		13:45	Isabel Schnabel, debate: Monetary Policy and Climate Change, The ECB and Its Watchers conference
Fed	16-Mar	19:00	FOMC monetary policy decision
		19:30	Jerome Powell, pres conference

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

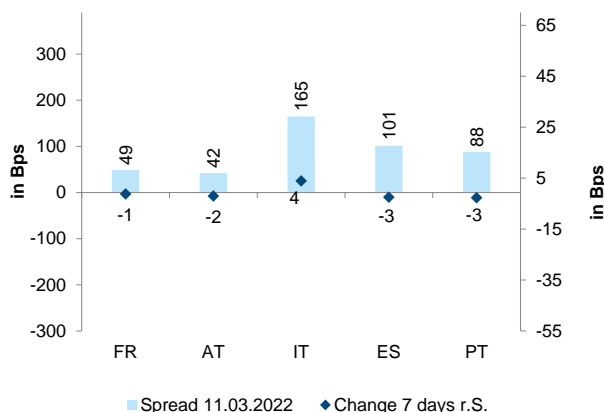
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



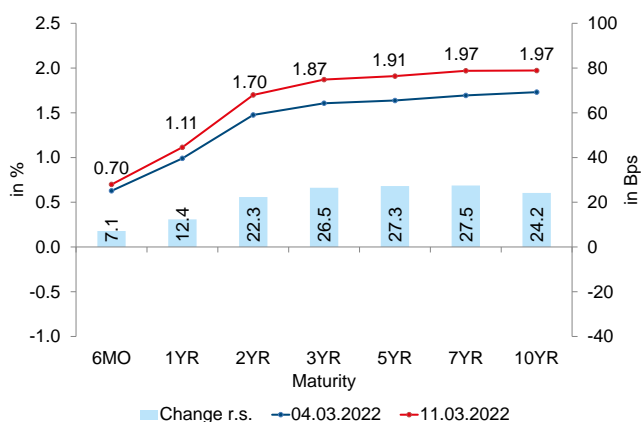
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



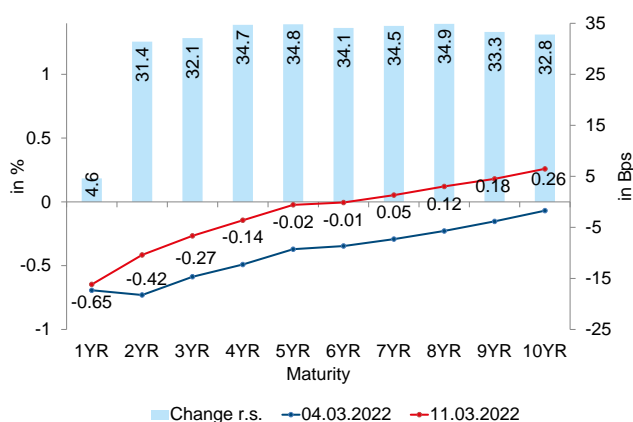
Source: Market Data Provider, Erste Group Research

US Treasuries yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2020	2021	2022	2023
Eurozone	-6.5	5.3	3.8 ↓	2.4 ↑
US	-3.5	5.7	3.3	2.3

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	5.7 ↑	2.2 ↑
US	1.2	4.7	5.8 ↑	2.0

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.51	-0.54	-0.54	-0.34	-0.14
Germany Govt. 10Y	0.26	0.20	0.30	0.40	0.50
Swap 10Y	0.95	0.50	0.60	0.70	0.80

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
Fed Funds Target Rate*	0.08	0.88	0.88	0.88	1.13
3M Libor	0.75	0.93	0.93	1.10	1.26
US Govt. 10Y	1.97	1.90	1.90	2.00	2.20
EURUSD	1.10	1.13	1.15	1.15	1.17

*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.
 Source: Market Data Provider, Erste Group Research*

¹ Note: In accordance with regulations, we are obliged to issue the following statement:
 Forecasts are not a reliable indicator of future performance.

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